

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 ISO-00 SAM-01 OPIC-03 CIAE-00 PM-03 H-02

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 2445

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMCONSUL LOURENCO MARQUES

AMCONSUL LUANDA

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY MOSCOW

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

USMISSION NATO

DIA WASHDC

USCINCEUR VAIHINGEN GER

AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

C O N F I D E N T I A L LISBON 2065

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EO 11652: GDS

TAGS: PFOR, PO

SUBJECT: CONVERSATION WITH NEW MINISTER OF INDUSTRY AND
TECHNOLOGY JOAO CRAVINHO

1. MY APRIL 10 COURTESY CALL ON NEW MINISTER OF INDUSTRY AND TECHNOLOGY, JOAO CRAVINHO, STIMULATED USEFUL EXCHANGE OF VIEWS. HIS APPROACH TO VARIOUS ASPECTS OF CURRENT SITUATION SHOW A GREATER SENSE OF REALISM AND FLEXIBILITY WITHIN GOP THAN IS GENERALLY ATTRIBUTED TO IT NOWADAYS.

2. THIS WAS PARTICULARLY TRUE IN AREA OF FOREIGN INVESTMENT. CRAVINHO STRESSED THAT GOP HAS GIVEN AND INTENDS KEEP ON GIVING CLEAR SIGNAL THAT FOREIGN INVESTMENT IS WANTED AND NEEDED, AS IT PROVIDES EMPLOYMENT, TECHNOLOGY, AND FUNDS. HE RECALLED THAT RECENT NATIONALIZATION DECREE ON BANKING AND INSURANCE SPECIFICALLY EXEMPTED FOREIGN FIRMS, AND STATED THAT NEW NATIONALIZATIONS BEING CONSIDERED FOR OTHER KEY SECTORS WOULD DO LIKEWISE.

3. HE BELIEVES THAT FOREIGN REPORTING GIVES AN ERRONEOUS IMPRESSION OF WHERE PORTUGAL IS HEADING INTERNATIONALLY. "PORTUGAL," HE SAID, "IS NOT A BABY LOOKING FOR A NEW MOTHER AMONG THE POWER GROUPS, LIKE CUBA WAS, BUT A COUNTRY SEEKING TO FIND ITS OWN WAY."

4. CITING ITT AS ONE OF THE FOREIGN INTERESTS THREATENING TO PULL OUT, HE EXPRESSED HOPE THAT MULTINATIONALS WOULD DISPLAY PATIENCE AND UNDERSTANDING FOR AT LEAST A FEW MORE MONTHS. NEW GOVERNMENT, HE SAID, IS BUSY FORMULATING POLICIES THAT WILL TACKLE THORNY PROBLEMS LIKE UNDISCIPLINED LABOR ACTIVITIES BUT THIS WILL TAKE TIME.

5. WHILE RESPONDING FAVORABLY TO MY SUGGESTION THAT IT WOULD BE USEFUL IN CALMING BUSINESS FEARS IF GOP COULD AT LEAST ACKNOWLEDGE THAT PROBLEMS EXIST AND ARE BEING WORKED ON, CRAVINHO NOTED THAT GOVERNMENT IN ITS DESIRE TO REMOVE UNCERTAINTIES CANNOT BE TOO DETAILED OR RIGID IN DEFINING "THE RULES OF THE GAME." HE LIKENED THE PRESENT SITUATION TO A FLOOD AND SAID THAT ANYONE MANNING RIGIDLY FIXED POSITIONS WOULD LIKELY FIND HIMSELF SWEEPED AWAY.

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6. CRAVINHO MENTIONED THAT THREAT OF DEFAULT ON OIL PROSPECTING CONTRACTS IN METROPOLITAN PORTUGAL BY U.S. FIRMS (TEXACO, CHEVRON, AND SUN-AMERADA-PHILLIPS) IS POSING AN IMMEDIATE PROBLEM FOR GOP. FIRST TWO, HE SAID, WERE CONCERNED BY FACT THAT RECENT ECONOMIC AND SOCIAL PROGRAM (LISBON 981) RAISED THE THREAT THAT SUCCESSFUL PROSPECTORS WOULD HAVE TO GIVE UP MORE OF THEIR FINDINGS TO THE GOVERNMENT THAN CONTEMPLATED AT TIME CONTRACTS SIGNED. CRAVINHO SAID GOP UNDERSTANDS THE SOURCE OF THE COMPANIES' FEAR AND, ALTHOUGH THE ECONOMIC AND SOCIAL PROGRAM WAS NOT MEANT TO APPLY TO THEM, HAS TAKEN STEPS TO

ELIMINATE THIS MISUNDERSTANDING. HE CLAIMS, HOWEVER, THAT THE SUN GROUP HAS FRANKLY STATED THAT ITS MOTIVE FOR ABANDONING ITS CONTRACT IS THE UNCERTAIN POLITICAL SITUATION (AND NOT THE POOR GEOLOGICAL PROSPECTS REPORTED IN LISBON 1955).

7. CRAVINHO SAID HE UNDERSTANDS IT IS THE NATURE OF BANKERS TO BE SKITTISH IN NEW SITUATIONS BUT ACTIONS LIKE THAT OF THE SUN GROUP AND A RECENT UNJUSTIFIED LLOYD'S DECISION TO RAISE INSURANCE RATES ON OFF-SHORE OIL RIGS FEED GOP'S FEARS OF AN INTERNATIONAL ECONOMIC BOYCOTT AND SABOTAGE. ONE MUST REALIZE, HE STRESSED, THAT GOP -- SPECIFICALLY THE REVOLUTIONARY COUNCIL -- SEES ITSELF ENGAGED IN A STRUGGLE TO SURVIVE AND CANNOT HELP BUT SEE ANY ACTIONS AFFECTING PORTUGAL IN THAT CONTEXT.

8. CRAVINHO CANDIDLY ADMITTED THAT THE ECONOMY IS IN SERIOUS TROUBLE WITH INFLATION AROUND 35 PERCENT (RATHER THAN THE 26 PERCENT RECENTLY REPORTED BY OECD), WITH PRODUCTIVITY DECLINING, AND WITH UNEMPLOYMENT RANGING BETWEEN 7 AND 10 PERCENT GOP HOPES TO UNDERTAKE PUBLIC WORKS PROGRAM THAT WILL PROVIDE PRIVATE EMPLOYMENT AND MAKE IT UNNECESSARY TO RESORT PUBLIC SERVICE EMPLOYMENT. IN THIS CONTEXT CRAVINHO SHOWED INTEREST IN U.S. AID PROJECTED FOR LOW-COST HOUSING AND ITS POTENTIAL IMPACT ON EMPLOYMENT.

9. COMMENT: CRAVINHO HAS LONG BEEN KNOWN TO THE EMBASSY AS A BRIGHT AND ARTICULATE TECHNOCRAT WHOSE LEFTIST POLITICAL IDEAS DO NOT INTERFERE WITH HIS PRAGMATIC APPROACH. I DETECT NO CHANGE IN THESE QUALITIES AS A RESULT OF HIS ELEVATION TO MINISTER. I FIND PARTICULARLY ENCOURAGING HIS ABILITY TO SEE THE OTHER MAN'S POINT OF VIEW AND TO LOOK FOR PRACTICAL WAYS TO ELIMINATE DOUBTS, AS IN THE CASE OF THE PETROLEUM PROSPECTS.
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TORS. HIS APPEAL TO FOREIGN BUSINESSMEN TO ACCEPT GOP'S ASSURANCES AT FACE VALUE AND TO HAVE PATIENCE FOR A WHILE LONGER IS REASONABLE, AND I THINK WE SHOULD CONTINUE TO COUNSEL AMERICAN FIRMS TO TAKE NO PRECIPITATE ACTION TOWARD PULLING UP STAKES HERE.
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